

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER REGULATION 28(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (INTERMEDIARIES) REGULATIONS, 2008 AGAINST M/S. FLORA SECURITIES

1. The Securities and Exchange Board of India (hereinafter referred to as SEBI), pursuant to an inspection conducted by M/s. C. M. & R. S. Associates, Chartered Accountants, in respect of the books of accounts, documents and other records maintained by the stock broker namely, Flora Securities (hereinafter referred to as the stock broker) for the period January 2000 to September 2002, vide order dated March 10, 2004 read with subsequent order dated December 10, 2008 appointed an Enquiry Officer under the provisions of Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations 2002 (since repealed) to enquire into the alleged violations/irregularities committed by the stock broker. The copy of the inspection report was also provided to the stock broker. As, the Securities and Exchange Board of India (Procedure for Holding Enquiry by Enquiry Officer and Imposing Penalty) Regulations 2002 was repealed with the notification of Securities and Exchange Board of India (Intermediaries Regulations) 2008, the Designated Officer (Enquiry Officer), submitted the report on January 12, 2010 and recommended for a warning against the stock broker. Subsequently, a notice dated January 21, 2010 was issued by SEBI to the stock broker asking it to show cause as to why appropriate penalty as

recommended by the Enquiry Officer should not be imposed on it. Thereafter, the stock broker vide letter dated February 4, 2010, while referring to its earlier letters dated January 20, 2005 and November 13, 2009 (before the Enquiry Officer), submitted that the deficiencies/discrepancies pointed in the inspection report had occurred inadvertently/unknowingly and without any malafide intentions. The stock broker also undertook to be cautious in future. Though, the stock broker was advised to inform whether it would like to avail of an opportunity for hearing, no response was made by it in that regard.

2. I have considered the Enquiry Report, the letter of the stock broker dated February 4, 2010 and other material available on record. The Enquiry Officer, while recommending the penalty of warning observed that the stock broker had *inter alia* contravened Regulation 12 of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, SEBI Circulars dated October 21, 1993, January 19, 1996, March 14, 1996, April 11, 1997, December 3, 1998 and January 15, 2001. The Enquiry Officer had given specific findings in respect of each of the charges. No effort was taken by the stock broker to controvert such findings of the Enquiry Officer. According to the stock broker, the deficiencies/discrepancies had occurred inadvertently. As the stock broker had not disputed the findings of the Enquiry Officer, I do not consider it necessary to reiterate the violations committed by the stock broker in this order. The only plea of the stock broker was not to impose the penalty of warning. I note that the stock broker had committed various violations. One of the violations was that the stock broker had failed to frame a Code of internal procedures and conduct as near thereto the Model Code specified in Schedule I of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as required by Regulation 12 thereof. The Enquiry Officer in his Report observed that the stock broker had not responded to the said violation. The Enquiry Officer had also observed that the stock broker was not

having adequate system at its disposal to oversee the gross exposure and thereby contravened SEBI Circulars dated October 21, 1993 and January 19, 1996. Admittedly, the stock broker had exceeded the gross exposure limit and was penalized by the National Stock Exchange of India Limited. The gross exposure limits are essential to contain the risk in the system. Further, the stock broker had also violated SEBI Circulars dated February 11, 1997 and April 11, 1997. It is admitted by the stock broker before the Enquiry Officer that some of its client registration forms were incomplete and thereby, the stock broker had failed to fulfill certain mandatory requirements. Besides, the stock broker had admittedly failed to collect upfront margin from all its clients, *inter alia* in violation of SEBI Circular dated May 17, 2002. It had also allowed certain entities to carry out sub broking activities before getting the registration as sub broker, *inter alia* in violation of SEBI Circular dated January 15, 2001. Further, the contract notes issued by the stock broker did not contain the Permanent Account Number of its clients whose transactions were above Rs. 10,00,000/-, as required under SEBI Circular dated December 3, 1998.

3. As an intermediary functioning in the securities market, the stock broker was bound to comply with the rules, regulations and circulars framed by SEBI which govern its conduct in the securities market. It was meant for the smooth functioning and regulation of the securities market and also for the protection of the investors in the securities market. The Enquiry Officer had recommended only a warning to be imposed against the stock broker. In the facts and circumstances, I do not see any merit in the plea of the stock broker not to impose 'warning' against it. The stock broker, in its letter dated February 4, 2010 had assured that it would not commit such violations in future and that it would be cautious and 'watchful' in future.

4. In view of the foregoing, in exercise of the powers conferred on me in terms of Section 19 of the Securities and Exchange Board of India Act, 1992 read with Regulation 28(2) of Securities and Exchange Board of India (Intermediaries) Regulations, 2008, M/s. Flora Securities (Registration Number INB230677426), Member, National Stock Exchange of India Limited is hereby warned for the deviations observed hereinabove which regulate its function as a registered intermediary of Securities and Exchange Board of India. The said stock broker is directed to strictly abide by laws, rules and regulations that govern dealings in the securities market.

DR. K. M. ABRAHAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

PLACE: MUMBAI

DATE: MARCH 3, 2010